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# Congress of the United States

## U.S. House of Representatives

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February 16, 2006

The Honorable Jim Nussle  
Chairman  
Committee on the Budget  
309 Cannon House Office Building  
Washington, D.C. 20515

The Honorable John Spratt  
Ranking Member  
Committee on the Budget  
B-71 Cannon House Office Building  
Washington, D.C. 20515

Dear Chairman Nussle and Ranking Member Spratt:

Yesterday, the Ways and Means Committee Republicans forwarded to you a letter transmitting the "views and estimates" of the Committee on Ways and Means "on those aspects of the Federal budget for year 2007 which fall within the Committee's jurisdiction," and the appropriate debt limit for the upcoming fiscal year. I am writing to advise you that the Committee Democrats do not concur with many of the statements and priorities present in that correspondence. The Republicans' letter is deficient, in some areas, and misleading in others.

The description of our economic and budget outlook in the Republicans' letter ignores some very troubling features of our current economic recovery. While we saw strong economic growth last year and healthy growth is expected this year, job growth has remained sluggish. The Republicans' letter cites growth of more than two million jobs last year, and 4.7 million jobs since enactment of tax cuts in 2003. However, that is significantly below the job creation levels that would be expected during a strong economic recovery. The economy has created less than 150,000 jobs per month since the 2003 tax cuts, and only slightly more than that last year. This is little more than is needed to keep pace with population growth. By contrast, the economy created 237,000 jobs per month over the eight years of the Clinton Administration.

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While overall the economy is performing well compared to the recession of a few years ago, the benefits of economic growth are not being distributed as broadly as they were during the economic recovery of the 1990s. From 2000 to 2005, real weekly earnings of a typical family fell by 0.9 percent while those at the higher levels rose; a household at the 90<sup>th</sup> percentile saw their real weekly earnings rise by 4.0 percent. The economic disparity between wealthy Americans and lower earners is even wider when one considers the impact of the tax breaks passed in recent years. It is deeply troubling that poverty continues to increase and wages for typical workers stagnate, at a time of healthy economic growth.

The following are comments regarding the fiscal year 2007 budget, the public debt limit, Medicare, taxes, Social Security, human resources, and trade. Also, it would be most helpful to the Committee and the American public if bipartisan hearings were held to address many of these issues.

Fiscal Year 2007 Budget:

The Republicans' letter cites the Congressional Budget Office (CBO) projection of a \$270 billion deficit for fiscal year 2007. While that would represent progress from increases in deficits since the beginning of this Administration, it does not accurately reflect the actual outlook, given the likely spending that is not reflected in the baseline. Because of this, the final deficit will be significantly higher. The CBO notes that additional outlays already anticipated by the current Administration for supplemental spending in Iraq and Afghanistan, and for hurricane relief, would add about \$25 billion to the deficit. The President's budget proposes initiatives that would increase next year's deficit by nearly \$100 billion and, even with a lower baseline, calls for a fiscal year 2007 deficit of \$354 billion.

The outlook does not improve in future years. The President's budget shows a declining budget deficit primarily by omitting certain costs that we are virtually certain to incur. In reality, if the Congress continues with current policies, we are likely to see only a modest decline at best in the deficit over the next few years.

In the face of this troubling outlook, the President's budget proposes to increase the deficit in each and every year, relative to its own baseline. The outlook is even worse in later years. The budget only has incomplete projections after 2011. Yet those are the years in which we would face most of the costs of the President's two most expensive initiatives: his proposal to make all of his tax breaks permanent, and his proposal to privatize Social Security. It is deeply troubling that, at a time when we are running the largest deficits in our history, the President is proposing simultaneously the largest revenue reduction in our history and what is almost certainly the largest spending increase in our nation's history.

Public Debt Limit:

The Republicans' letter discusses the need for an increase in the statutory public debt limit this year but does not recommend an appropriate debt limit amount for the upcoming fiscal year. House Rule X (4)(f)(2) specifically requires the Ways and Means Committee, as part of its annual views and estimates letter, to provide "a specific recommendation, made after holding public hearings, as to the appropriate level of the public debt." This omission, along with the fact that hearings were not held on the subject, brings the usefulness of the Republicans' letter and their concern for the federal deficit into question.

If the debt limit is raised by the amount assumed in last year's budget resolution, we will see a total increase of \$3 trillion in less than four years---largely funded by foreign investors. According to the President's own budget, the increase in foreign holdings of our debt was larger than all Federal borrowing from the public in 2004 and about 80 percent of the total last year. This is a troubling trend, particularly since our debt is likely to continue its recent dramatic increase under the policies pursued by the President and Congressional Republicans.

Medicare and Other Health Issues:

The reference in the Republicans' letter to the Committee's potential "continued" oversight of implementation of the new Medicare prescription drug program is offensive in light of their record. Last year's "views and estimates" letter contained similar lofty rhetoric, but the reality is that the Committee Republicans refused to schedule a single hearing on the issue, even as Committee Democrats made numerous requests and as significant problems came to light in the press and elsewhere. Indeed, none of the 12 health hearings that occurred last year in the Committee dealt with implementation of the drug program. Instead of empty promises, the Committee should schedule an aggressive and thorough series of hearings examining implementation efforts, as well as revisiting some of the statutory flaws.

In addition, funding for the Medicare Advantage program has increased dramatically in recent years, and enrollment is projected to increase as well. Yet, oversight for the Medicare Advantage program has been non-existent and is long-overdue. Between the recently-passed reconciliation legislation and the President's budget submission, Republicans have proposed Medicare cuts totaling more than \$140 billion over ten years, with less than three percent (\$4.1 billion) coming from the Medicare Advantage program. Since 2001, MedPAC has consistently recommended eliminating the overpayments to the private plans. Last year, CBO estimated doing so would save approximately \$50 billion over ten years; that number would increase in the current ten-year window. Thus, while the Republicans' letter mentions the need to review "all"

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Medicare payment systems, it is critically important to specifically address Medicare Advantage overpayments.

As we prepare Medicare for the future, there are a few other issues on which the Committee should take a leadership role. First, more work needs to be done to examine the problems with the current physician payment system; the conceptual framework discussed in the Committee to date will not fix the fundamental problems for years to come, if ever. Second, the Committee should hold hearings on the President's Medicare proposals in the budget, including discussion of the 45 percent trigger to cap Medicare's entitlement. Third, the Committee has historically held a hearing on the annual Medicare Trustee's Report, although that did not occur in 2005. Given the importance of the issue, that hearing should be reinstated to foster discussion of the effects of Republican policy on Medicare's long-term spending projections.

Finally, Committee Republicans claim each year in their letter to be interested in making health care more affordable and expanding access to health insurance, yet there were no hearings on this issue last year and no legislation came before the Committee to address these persistent problems. Indeed, the Committee has failed to conduct proper oversight on the programs that currently exist. Given that Health Savings Accounts (HSAs) are the centerpiece of the Republicans' health care agenda and that the program falls exclusively under the jurisdiction of the Committee on Ways and Means, the Committee should at least put forth a serious effort to study the effect of the HSA program on coverage, quality, prices and spending for participants, non-participants, and the entire system. The Government Accountability Office (GAO) has found that HSAs in the federal employees health program appear to appeal primarily to a healthier and wealthier population, which could lead to dangerous segmentation of the market. It is alarming that the President proposes to spend an additional \$156 billion to expand HSAs, yet there appears to be virtually no real data on the effects of current law. Any efforts to address problems relating to cost and coverage should not falsely be limited to proposals that would further complicate the tax laws or rely exclusively or excessively on the minimally-regulated non-group market. All options must be considered, including those that build on efficient existing public programs.

#### Taxes:

The major tax cut provisions in the Bush Administration budget for fiscal year 2007 really are empty promises to the public that can not be sustained. The budget only provides the middle class with partial and temporary relief from the alternative minimum tax (AMT) for one year. Individual AMT requires a long-term and permanent solution. The public should not be fooled. Also, our economy and growing federal deficit cannot support the long-term costs of making permanent the tax breaks enacted in 2001 and 2003 which benefit the wealthiest in our society.

Not making AMT relief permanent effectively denies the benefits of the other permanent extensions. Specifically, by 2010, the AMT will take back 21.4 percent of promised tax breaks from individuals making between \$75,000-\$100,000 and 47 percent of the promised tax breaks from individuals making between \$100,000-\$200,000. In contrast, households with annual incomes of over \$1 million will lose less than 10 percent of the benefit of the permanent extension of the 2001 and 2003 tax breaks.

Permanent extension of the 2001 and 2003 tax reductions would cost approximately \$1.4 trillion over ten years. The Republicans' letter implies that these permanent tax cuts reflect "economic growth-enhancing policies." In fact, large deficit-financed tax cuts are more likely to reduce investment and economic growth. With this in mind, it would be fiscally irresponsible to make these tax cuts permanent given that they are not paid for and will generate substantial and indefinite increases in the federal debt. The increased interest costs from the tax cuts already enacted will total \$1.3 trillion from 2001 through 2016. These tax cuts disproportionately benefit the wealthiest in America and are unfair to low and middle-income working families.

The President's priority tax reform initiative appears to have fallen by the wayside. His Tax Reform Advisory Commission issued its report with legislative recommendations nearly a year ago. All that has been heard from the Administration is that the President's reform package is being developed with no details or time frames discussed. Yet the Committee continues to hold hearings on House Members' proposals for tax reform---not on the President's Commission recommendations (such as reductions to the home mortgage deduction or changes in the tax treatment of job-based health benefits) nor on options it considered but rejected (such as a federal retail sales tax). Clearly the tax code needs to be simplified and made less complex for taxpayers, and there is no reason to wait any longer. The public deserves details on what the President proposes, not just further delay.

The Republicans' letter fails to discuss the importance of oversight of the Internal Revenue Service (IRS) and deficiencies in the fiscal year 2007 budget for tax administration as proposed by the Administration. For example, IRS taxpayer services will be cut by about a third with no indication of whether the Administration's plan is to shut down walk-in assistance offices and/or to reduce telephone hours of operation; the "tax gap" continues to be up to \$353 billion a year, with little meaningful enforcement efforts to address noncompliance by corporations and high-income taxpayers; and, low-income workers claiming the earned income tax credit (EITC) continue to be the subject of aggressive IRS audit programs, even though it has been established that most errors are innocent mistakes due to the complexity of current law, rather than intentional fraud. Just last month, the IRS Taxpayer Advocate alerted the Congress that millions of valid EITC tax refund claims were being denied without notifying taxpayers. Committee Democrats successfully interceded to insure that the "freeze" program was revamped consistent with current law tax rules and that EITC taxpayers are treated fairly. Much more

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needs to be done to monitor the IRS to insure taxpayers that our tax system operates fairly and efficiently. Oversight of the IRS by the Committee needs to be a higher priority.

Also, the Committee should review the financial status of the Pension Benefit Guaranty Corporation (PBGC) to determine the exposure and risks workers face as a result of the current operating deficit, as outlined in the President's budget.

#### Social Security:

As noted above, the President has proposed privatization of Social Security. This would be the most significant change in the program since its inception nearly 70 years ago. It also would be a dramatic increase in mandatory spending, perhaps the largest increase ever. In the first year of his proposal, 2010, the private accounts he has proposed would cost the Social Security Trust Funds \$24 billion, jumping to \$57 billion in the second year, and to \$712 billion in 2007-2016. Costs beyond 2016 would be even larger. At the same time, the budget describes the President's proposal for the largest single cut in Social Security benefits ever: his proposal to cut benefits for every future worker earning more than \$20,000 (in today's terms) as part of his privatization scheme. Yet, the Republicans' letter makes no indication of any intent to examine or consider these proposals. We believe that the Committee should indicate whether it intends to hold hearings, move legislation, or otherwise act on the President's initiative.

In addition to the benefit cuts associated with privatization, the President proposes cuts in Social Security benefits for widows, certain teenage beneficiaries, and some disability beneficiaries who also receive workers' compensation. The Republicans' letter makes no mention of whether it will review or act upon these proposals.

#### Human Resources:

The Republicans' letter fails to note two significant issues that affect many of the human resources programs within the Committee's jurisdiction. They are: the rising number of Americans living in poverty and the devastation resulting from recent hurricanes. Over the last four years for which we have reliable data, 5.4 million more people have slipped into poverty even as the number of people receiving aid from the Temporary Assistance for Needy Families program has declined. The Committee should review and consider suggestions for responding to this growth in poverty. Also, the Committee should respond to continuing needs arising from Hurricane Katrina. For example, roughly 150,000 New Orleans and Gulf Coast residents who lost their jobs because of the disaster will soon run out of unemployment benefits, and thousands of foster children remain displaced from their homes.

Trade:

The Administration's deficit spending has created the need for the U.S. government to borrow massive amounts from foreign governments. In fact 90 percent of the debt incurred by the Bush Administration since 2001 has been financed by foreign countries, such as China. Key holders, such as China and Japan, re-cycle dollars earned from profitable sales to the U.S. to purchase additional U.S. debt, thereby suppressing the value of their own currencies, thereby worsening the U.S. trade deficit and leading to even greater amounts these countries have to invest.

The Republicans' letter does not discuss more than a dozen trade-related matters in the Committee's jurisdiction which are of critical importance. They are:

- passage of legislation extending trade preferences to Haiti;
- oversight of the ongoing economic impact of U.S. sanctions with respect to Cuba, and the Administration's failure to address this issue;
- oversight of the Administration's trade policy with respect to the loss of 2.9 million manufacturing jobs since January 2001, the growing problem of offshoring in service industries, and legislation to address these vital economic issues;
- oversight and possible legislation with respect to the massive and growing \$726 billion trade deficit;
- oversight of the Administration's disregard for Congressional authority over trade under Article I, Section 8 of the Constitution (i.e., the President's statement that he shall construe as "advisory" Section 631 of Public Law 109-108 directing the President not to include in trade agreements provisions restricting the reimportation of pharmaceuticals);
- oversight and possible legislation with respect to the massive and growing trade deficit with China, issues related to China's currency manipulation, as well as persistent market access barriers in China in the agricultural, industrial and services sectors, and chronic problems with China's implementation of intellectual property rights, including as provided for under the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights, and the Administration's failure to date to address these problems successfully;
- oversight of the failure of WTO negotiations to conclude as scheduled in December 2003, December 2004 and December 2005, actions of the Administration that might have

contributed to that failure, and any changes to Administration policy in light of the failure to conclude WTO negotiations on schedule;

- hearings on implementation of the 2004 African Growth and Opportunity Act (AGOA) Acceleration Act, and additional legislation to extend the third country fabric provisions of the legislation, and to strengthen the trade and investment relationship between the United States and sub-Saharan Africa;
- with respect to Free Trade Agreements notified to Congress in 2006, and prior agreements notified to the Congress under the fast track procedures enumerated in the Trade Act of 2002, the Committee's use of the 90-day period, as provided in the Trade Act of 2002, to hold hearings and provide other opportunities for comments on and any suggested changes to the draft agreements;
- hearings with respect to free trade agreements that the Administration proposes to negotiate or seek Congressional approval in 2006, with respect to all issues of acute concern to American farmers, workers and businesses, including adherence to basic international labor standards, enforcement of intellectual property rights, and market access for American manufacturers, farmers and service providers;
- oversight of market access and other problems, including failure to enforce intellectual property rights in key bilateral markets, such as in Brazil, China, the European Union, India, Japan, and Korea, and other countries;
- legislative renewal on an urgent basis, as well as updating and reform in due course, of preferential trade programs expiring in December 2006, such as the Generalized System of Preferences and the Andean Trade Preference and Drug Enforcement Act, as well as the expiration of 100 percent third country benefits under the AGOA;
- oversight of the Bush Administration's record in WTO negotiations and dispute settlement to preserve and enhance strong trade remedy laws, in particular the antidumping, countervailing duty and safeguard laws; and,
- program enhancements and possible legislation to equip working Americans to take full advantage of globalization, including through reform and expansion of the Trade Adjustment Assistance program and steps that can be taken in the areas of education, lifelong learning, and health and pension benefits for American workers.



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In conclusion, this letter is not intended to be a full critique of the Republicans' letter and budgetary agenda or a comprehensive list of Democratic priorities. The Democrats felt it necessary to write your Committee separately to make it clear that the officially-approved letter does not fully reflect the "views and estimates" of the Committee as a whole.

Sincerely,

A handwritten signature in black ink, reading "Charles B. Rangel". The signature is fluid and cursive, with a long horizontal stroke at the end.

Charles B. Rangel  
Ranking Member

cc: The Honorable William M. Thomas, Chairman, Committee on Ways and Means